United Nations
Round Table 5 (PM)

FFD/6
1 December 2008

WEALTHY NATIONS, OTHERS BEHIND FINANCIAL CRISIS MUST TAKE RESPONSIBILITY, ROUND TABLE ON DEBT TOLD

While most participants in the round-table discussion on external debt focused on such issues as the Highly Indebted Poor Countries (HIPC) Initiative, conditional ties, illegitimate debt and the work of the Paris Club, Mary Robinson, President of the Ethical Globalization Initiative called for “responsibility and accountability” for the current financial crisis, which was a “first world debt crisis caused by irresponsible behaviour and a phoney market in toxic assets”.

Approaching the question of debt and the current financial crisis from a human rights perspective, Ms. Robinson said that, while she welcomed the progress made by HIPC countries, she would have been happier if somebody had said “sorry” for the financial crisis. Merely calling it an external shock sounded like “something out of Alice in Wonderland”. Nobody, including the rich countries, the Bretton Woods institutions, or even the consumers should escape their responsibility for the crisis.

She said that, apart from the food, fuel and financial crises, global climate change was now also weighing heavily on poor countries. Global warming was not a natural phenomenon but was caused by human behaviour. The Conference must deal with responsibility and accountability that ought to have consequences for development financing. There were moral and ethical considerations; the financial crisis carried responsibilities and poor countries should not bear the burden.

Ms. Robinson was speaking as a panellist during the fifth multi-sector round table of the Follow-up International Conference on Financing for Development to Review the Implementation of the Monterrey Consensus, which was co-chaired by Isatou Njie-Saidy, Vice-President of Gambia, and David Minoves, Director-General for Development Cooperation and Humanitarian Action of Catalonia, Spain. Moderated by Murilo Portugal, Deputy Managing Director of the International Monetary Fund (IMF), the round table’s other panellists were Nancy Birdsall, President of the Center for Global Development; Carlos Braga, Director of the World Bank’s Economic Policy and Debt Department; Benoît Coeuré, Co-Chairman of the Paris Club; and Robert Gray, Chairman, Debt Financing and Advisory at HSBC Bank.

In introductory remarks, moderator Portugal said significant advances had been made since Monterrey, particularly on debt relief for the poorest countries. Some 33 countries had reached the HIPC eligibility point, whereby they could begin to receive debt relief, and 23 of them had reached the completion point, receiving about $90 billion in debt relief, which had reduced the debt-service burden of recipient countries by about 2 percentage points of gross domestic product (from 4 to 2 per cent), allowing for a similar increase in their poverty reduction programmes (from 7 to 9 per

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cent of gross domestic product (GDP)). The IMF had developed a debt sustainability framework widely used by lenders to identify debt vulnerabilities at an early stage.

He said challenges included the need for stronger efforts with respect to delivery of debt relief on the part of both the HIPC countries and the international community, noting that some creditors groups, like the Paris Club, had delivered only 30 to 40 per cent of their expected share of relief. Another issue was that new assistance promised to help developing countries meet multilaterally agreed development goals had been slow to arrive. If the Gleneagles commitment to double aid to Africa by 2010 was to be met, there must be a faster rate of growth with respect to the required funds. Those challenges would require a lot of creativity and determination.

Ms. Birdsall said the financial shock would almost certainly undo the social and economic progress made by the HIPC and other low-income countries unless very rapid creative changes were made to the rules of the debt-relief programme and related rules governing access by low-income countries to borrow under the current debt sustainability framework. There was a need to simplify the rules determining access to International Development Association (IDA) grants as opposed to loans, and to create a contingency facility that would delay debt servicing or relieve debt in the event of an external shock to a post-completion-point HIPC country.

Those countries were still heavily dependent on aid, and several were still paying more than 2 per cent of gross domestic product in debt service, she said. Debt sustainability also remained an issue as the countries were also vulnerable to external shocks. Stabilization funds and diversification could help, and self-insurance, although costly, was also a possibility.

Mr. Braga said that, while many believed that implementation of the Monterrey Consensus had been “mixed”, progress had been relatively solid on debt relief and the role of foreign debt in development. At the same time, there were “schizophrenic” attitudes about debt; while borrowing could be good on one hand, if the borrowed funds were not put to good use and debt built up, it could spell trouble on the other.

Turning to the HIPC Initiative, he said it covered 37 developing countries with high levels of poverty and debt overhang which were eligible for special assistance from the IMF and the World Bank. The status of that programme should be judged by the criteria behind its launch -- provision of debt relief to kick-start growth; promoting transparency; and releasing resources to target poverty reduction expenditures.

He said the good news was that developing countries participating in the initiative had seen remarkable growth in the past six years. While it had not been the only measure responsible for that growth, the HIPC Initiative had certainly helped free up significant resources that contributed to poverty reduction. Still, while HIPC and the Multilateral Debt Initiative (MDI) had been steps in the right direction, debt management and overall economic environment were critical for sustained success. To that end, only nine programme countries had a “low risk” of debt distress, while 4 per cent had been considered at “high risk” of debt distress. The IMF and World Bank were working to ensure that HIPCs, especially those in sub-Saharan Africa, were provided with the assistance to help weather the current global crises.

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Mr. Coeuré talked about the efforts of the Paris Club in providing debt restructuring, relief, and cancellation while paying close attention to the ripple effects of the financial meltdown. There were clouds on the horizon and Club members planned to play their part in ensuring that the crisis did not severely impact developing and least developed countries. Since Monterrey, out of some $99 billion committed through 2007, about $53 billion had been granted to 23 post-completion point HIPCs. In addition, the Club had been a major contributor in relieving the debt of countries outside HIPC, having granted relief to 10 middle-income countries under its “Evian Initiative”. Over the past six years, the Club had adapted its relief in response to the prevalence of major exogenous shocks, including natural catastrophes, trade and market volatility, and conflict.

Looking ahead, Mr. Coeuré expressed concern that the participation of non-Paris Club creditors to HIPCs still fell short of expectations. Such uneven participation harmed the efficiency of debt relief at the expense of both debtor and creditor countries which “played fair”. The number of HIPCs currently facing lawsuits was also a cause for concern. As of 2007, some 50 litigators had targeted HIPCs for claims worth $1.5 billion. The Paris Club was also concerned about debt sustainability and would work to identify ways to promote economic diversification, build debt-monitoring capacities, ensure sustainable lending practices, and improve transparency on debt flows. The Club would also strengthen its policy outreach to get emerging lenders involved in a permanent dialogue on a broad set of debt-related issues.

Mr. Gray noted significant improvements in cooperation between the private and public sector during crises and a higher level of trust and understanding between the two. In 2003, there had been an active dialogue on crisis management between the private sector and Governments of the G-20, which had resulted in principles and guidelines for restructuring debt that, among other things, emphasized the sharing of information in order to contain crisis risk. Transparency had improved and there was increased engagement between the private sector and Paris Club members.

He said the HIPC Initiative had increased the number of countries requiring debt reconciliation. Liberia’s external debt had been reconciled quickly, but there had been a long delay in reconciling commercial debt. A template should be developed to address such delays in restructuring of commercial debt. Although there had been a dramatic drop in commercial bank lending, innovations in the capital markets could help. Some Latin-American countries had issued global bonds in local currency but settled in United States dollars.

When the floor was opened for discussion a delegate from Bahrain said that, for developing countries, heavy debt burdens amounted to “restrictions” on socio-economic growth and development. As such, accumulated debt must be addressed, including through debt cancellation, to ensure broader development. Norway’s representative stressed, however, that debt burdens alone were not responsible for the vulnerability of some countries. Since such development challenges could not be rectified by debt relief, there was a need for a mix of measures, including infusions of new money, diversification and some form of debt relief.

The Independent Expert of the United Nations Human Rights Council on Foreign Debt and Human Rights, noting that fundamental rights had received very little attention in discussions on the debt crisis, called for a new debt-sustainability framework designed with the full participation of countries affected by the debt crisis. On illegitimate debt -- negligence in lending and contributing to the debt accumulation of developing countries -- the international community must come up with generally agreed criteria for identifying and treating it. In the absence of such a decision, all creditors should agree on measures to cancel such debt.

Several speakers stressed that the current debt management system did not address the real needs of most developing and least developed countries. They called for the creation of a system free from the influence of the Bretton Woods Institutions and which heeded the voices of debtor countries. One speaker also called on the United Nations to draw up international guidelines on borrowing and lending.

A representative of the Private Sector Committee on Development said that, if the economic crisis deepened and tipped more countries into poverty, the financial sector might not be ready to support the measures needed to respond. The Bretton Woods institutions and the Paris Club, among others, must step in where gaps emerged.

At the same time, a representative of civil society groups urged participants to remember that the HIPC Initiative had been designed as a “one-off” programme to help countries struggling with debt. It would be of no help to countries that had already gone through it, so countries that had dropped back into poverty in the face of the current financial crisis had basically no options. While the Bretton Woods institutions had a role to play, countries that found themselves in that position should design and implement their own responses. Bolivia had undertaken, on its own, a complete debt-sustainability analysis which had included surveys of its macroeconomic growth prospects and vulnerability to external shocks.

The representative of the United States said that country’s Government was mindful of the impact of the parallel crises on developing countries and reaffirmed the importance of the Millennium Development Goals. The United States also reaffirmed the development principles agreed at Monterrey, which emphasized country ownership, including in the mobilization of resources for development.

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